Scott Paper Limited 1980 Annual Report

SCOTT

Scott Paper Limited
1980 Annual Report

Head Office/Vancouver, British Columbia
Plants/New Westminster,
British Columbia; Crabtree and
Lennoxville, Quebec
Sales Offices/Vancouver, Winnipeg, Toronto,
Montreal and Dartmouth

Ce rapport annuel est publie en francais et anglais,
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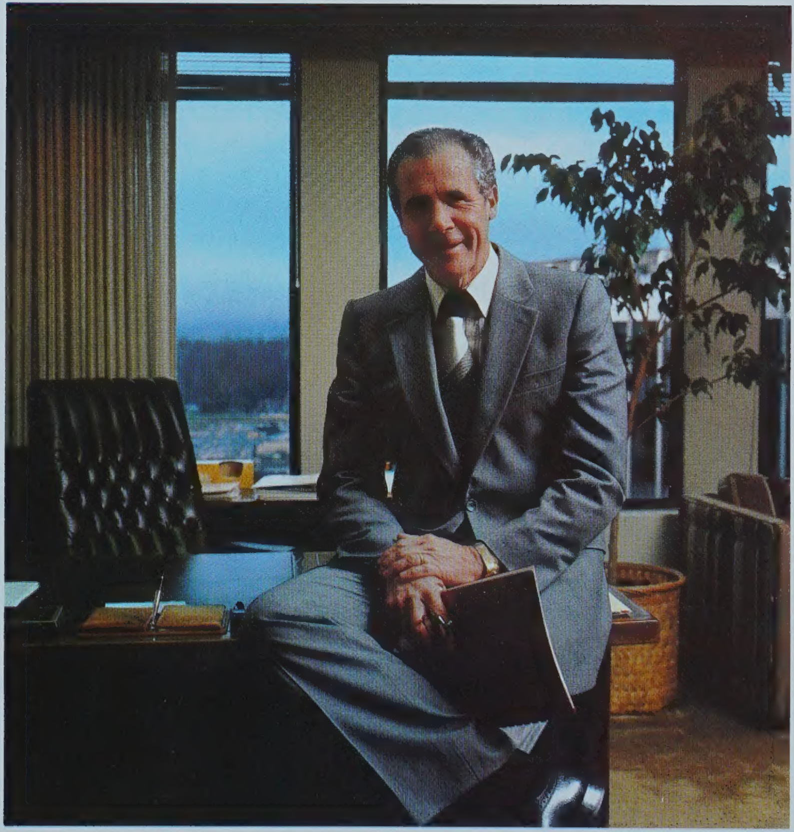
Cover picture: For more than a decade Lady Scott has been one of Canada's favourite bathroom tissues. During 1980 the softness of the tissue was enhanced with the introduction of an improved finish. Lady Scott comes in Gold, Blue and Green decoration on white tissue and now, the new colour Champagne.

Chairman's Message to Shareholders and Employees

Scott Paper Limited experienced a successful year in 1980 with growth in sales and earnings and improvement in productivity. Net sales increased by $16,513,000 to $157,035,000, and were 11.8 per cent higher than the previous year's total of $140,522,000. Net income after taxes was $7,430,000, an increase of $1,166,000 or 18.6 per cent over earnings of $6,264,000 in 1979.



It should be noted that financial results for the year 1980 followed a very good performance in 1979, when sales and earnings increased 20.6% and 47.8% respectively.

Earnings per share were $2.98, compared with $2.55 per share achieved in 1979. The total number of shares outstanding increased to 2,490,850 from 2,455,900 as a result of purchases under Scott's stock option program for key employees.

These financial results reflected both gains in physical volume of the Company's products and improved efficiency in our manufacturing process, coupled with savings achieved in energy costs and materials usage in our plants.

Financial Highlights

FOR THE YEAR	1980	1979	percent change
	(thousands of dollars except per share)		
Net sales	**$157,035**	$140,522	11.8
Depreciation	**5,399**	4,732	14.1
Interest expense	**2,561**	2,660	(3.7)
Income before taxes	**11,690**	9,806	19.2
per share	**4.69**	3.99	
Income taxes	**4,260**	3,542	20.3
Income after taxes	**7,430**	6,264	18.6
per share	**2.98**	2.55	
Dividends	**2,107**	1,589	32.6
per share	**.85**	.65	
Income reinvested in the business	**5,323**	4,675	13.9
Cash flow from operations	**12,438**	11,938	4.2
per share	**4.99**	4.86	
Capital expenditures	**5,010**	5,255	(4.7)
Salaries, wages and benefits	**40,731**	35,901	13.5
AT YEAR END			
Ratio current assets to current liabilities	**1.7**	1.6	
Long term debt	**$ 15,296**	$ 16,336	
Shareholders' interest per share	**$ 18.47**	$ 16.45	
Number of shares outstanding at year end	**2,490,850**	2,455,900	
Number of shareholders	**1,353**	1,232	

The sales performance was well balanced. Gains were made not only in total volume but market share improved in key product lines in both the consumer and commercial divisions.

Several years ago, in our long-range planning, we set objectives focussing on increased rates of return on sales, equity, and investment. These rates have been improved and this places us in a better position to consider the capital investments required to improve the Company's cost-competitiveness in the future. This improvement is as illustrated in the following tables.

	1980	1979	1978	1977
Return on sales	**4.7%**	4.5%	3.6%	3.5%
Return on equity	**16.1**	15.5	11.9	11.4
Return on investment	**11.3**	10.3	8.0	7.1

Cash flow from operations amounted to $12,438,000 compared to $11,938,000 in 1979. Cash flow in 1980 was adversely affected due to the provision for payment of $480,000 of deferred income taxes. The amalgamation of Scott Paper Limited and Westminster Paper Company Limited at July 1, 1979 enabled the company to virtually double the claim for capital cost allowances in 1979 and thereby reduce the amount of capital cost allowances available for 1980. This fact, along with slightly lower capital expenditures during the year combined to provide insufficient capital cost allowances to offset the normal depreciation charged to operations and resulted in the above noted payment.

Inventories of finished products and work-in-progress were increased to greater than normal year end levels in order to provide for paper machine shut downs for modifications planned during 1981. The year end inventories were also affected by inflation and the normal build-up

associated with first quarter 1981 sales and marketing activities.

Dividend payments were increased during 1980. Dividend payments, currently at the rate of 22½ cents per quarter, amounted to 85 cents per share for the full year 1980, compared with 65 cents in 1979 and 49 cents in 1978. Scott's healthy earnings trend and the increased dividends have combined to strengthen the price of the Company's stock which is traded on the Vancouver, Toronto and Montreal exchanges. The stock closed the year in the low $20 range which is nearly double the $11 level that prevailed immediately following the Company's three-for-one common share split of 1978.

Scott's shares have always been closely held, but there has also been very encouraging growth in this respect in that the number of shareholders has increased from less than 1,000 in the mid-1970's to 1,350 at year-end 1980. The year 1980 marks the fiftieth consecutive year of dividend payments to shareholders of the Company.

(Left to right): ***John Philip,*** *Division Vice President (Ventures);* ***Douglas Holme,*** *Corporate Vice President (Corporate Development);* ***John Reid,*** *Controller.*

Research and Development

The Company's investment in research and development increased during the year. A total of $1,330,000 was spent, $480,000 in our own facilities in Canada, and the balance — or

(Left to right): ***David Stowe,*** *Corporate Vice President (Consumer Marketing);* ***Peter Peters,*** *Group Vice President and Treasurer;* ***James Boyle,*** *Division Vice President (Industrial Marketing).*

$850,000 — paid under our research and development agreement with Scott Paper Company of Philadelphia, Pa. The agreement calls for management and financial participation by our Company in research and development programs carried out in the United States and elsewhere among Scott's affiliates and subsidiaries. The research is focussed on areas of primary concern in tissue and fibre technology and through this program we have direct participation in terms of opportunities and requirements for the Canadian sanitary products market. Research and product development is a very important part of our Company's long-range plans for continued and substantial growth in the 1980's. Combining our investment and efforts with those of Scott Paper Company and their worldwide affiliates provides an order of magnitude in research and development that we could not achieve on our own.

An adequate fibre supply is important to the Company's long-range development and steps were taken during the year to strengthen the Company's position in that regard. Scott took over sole ownership of West Tree Farms in the Fraser Valley of British Columbia which previously had been operated jointly with Weldwood of Canada Limited. Cottonwood fibre is blended with chemical pulp to provide the basic raw material for the Western Manufacturing Division at New Westminster, and

during the year the Company carried on intensive negotiations with the provincial government to increase the cottonwood-producing acreage under our management. Efficiency gains at the secondary fibre mill at Crabtree have also resulted in increased use of lower-cost fibre to improve our cost-competitive position.

The development of Sancella Inc., our joint venture with Molnlycke AB of Sweden in the field of health-care products, has been encouraging. This company, formed during 1979, is concentrating on market research and new product testing and development in the growing Canadian health-care market. Results have been positive from the introduction of new product lines.

Ralph Kitos, *Division Vice President, General Manager, Western Manufacturing Division.*

Sales and Marketing

Sales of consumer and commercial trademark products were ahead of 1979 and exceeded sales targets. This was achieved in a year in which market performance was mixed, showing weakness in the east but strength in western Canada. However, Scott's aggressive sales and promotion programs were instrumental in lifting our sales growth rate ahead of the actual growth in the market in certain key product lines.

One of the highlights in the consumer product division was the strong performance in bathroom tissue. The Company completed a national distribution of the improved Lady Scott product, featuring "soft impressions", as well as national distribution of the new, improved Cashmere bathroom tissue. At the same time, the Company introduced the new champagne colours to Cottonelle, Purex, and Lady Scott and sandalwood into Scotties. Scott also came into the market with a major improvement in Confidets maxi-pads. A variety of consumer promotion programs coincided with introduction of these improved new products to support the overall sales effort.

(Left to right): ***George O'Leary,*** *Chairman and President;* ***Serge Guay,*** *Division Vice President, General Manager, Eastern Manufacturing Division;* ***Bernard Goulet,*** *Group Vice President.*

The year was also one of substantial success for commercial packaged products with growing acceptance of Wypall, a new industrial wiper introduced in 1979. Scott has placed great emphasis on distributor support, selling products of quality and value, and concentrating on markets where the Company can build a strong franchise. The result has been much improved performance for the division.

Manufacturing

The year was one of steady production from the Company's eight paper machines at New Westminster in British Columbia and Crabtree and Lennoxville in Quebec. Good gains were registered in operating efficiencies from increased rates of production and savings were achieved in materials usage and energy.

Chemical pulp prices increased during 1980, but the Company was able to reduce the impact of chemical fibre cost increases through efficiency gains and other savings in the mills and, particularly, at the secondary fibre mill in Crabtree. Planned improvements have almost doubled the capacity of the secondary fibre mill since start-up in 1977.

Savings on energy costs continue to be realized as a result of the Company's conservation program implemented several years ago. Scott's energy savings program has contributed to the improved overall Company performance by reducing the energy consumption per ton of product sold. In both Crabtree and New Westminster, studies are continuing to explore greater use of substitute energy such as hog fuel or electricity, in place of more costly oil.

People at Scott

A company's potential for achievement is very heavily dependent on its people. At Scott, we believe that our strength lies in our people, and we seek the most effective utilization of all the talent within our business. Scott Paper is particularly fortunate in terms of the experience our management, hourly, and salaried people possess.

(Left to right): ***Robert Stewart,*** *Group Vice President;* ***Michael Ferrie,*** *Division Vice President (Corporate Personnel);* ***John Herb,*** *Secretary.*

In 1979 the corporate structure of Scott Paper was re-organized, placing the key operating divisions of finance, marketing, and manufacturing each under a group vice-president. Corporate development, which includes the joint venture company and logistics was placed under a corporate vice-president. This system matured well during 1980 in terms of long-range planning and business development.

Scott is fortunate in having people whose experience ranges through all aspects of manufacturing, marketing and sales, and finance. There are many people whose experience includes assignments in several divisions within the Company and within Scott Paper Company's international organization, thus broadening the experience on which we can draw. Scott possesses an experienced and enthusiastic team that has grown and matured over the years. One in five Scott employees has been with the Company 20 years or more.

During the year Alex W. Fisher, long a respected and active member of the Board of Directors, retired. Mr. Fisher had been a director since 1973 and the Company values his wise counsel and dedicated service over those years. We are pleased to welcome as a director, H. G. MacNeill, President and Chief Executive Officer of Jannock Limited, a successful and diversified Canadian manufacturing company. Mr. MacNeill is board chairman of several Canadian companies and a director of others. His wide experience in the Canadian manufacturing industry will be a valuable asset to our Company.

Planning for the Long Term

Extensive use of advanced management science in our business planning, including financial and economic models and forecasts, are providing a significant contribution to the Company's progress. The co-ordination of short and long-range objectives, consumer and market research, product development, and capital spending plans has contributed to our decision-making capability and our profit performance.

The 1980s will present new challenges and opportunities. Challenges, such as increasing government regulation and influence flowing from all sectors of society and the growing impact of international events on the domestic

market, have a real effect on the cost and complexity of doing business in Canada. Opportunities, on the other hand, relate to the availability of highly-trained and motivated individuals, sophisticated management and planning techniques, and exciting technological developments of which the Company can take advantage.

Co-ordination between manufacturing, sales and distribution is extremely important to bring our quality products to market on a competitive basis. One of our major objectives is to develop more effective and efficient systems to manage and control the very significant cost of the inventory required in our industry.

Your directors are confident that we possess the people and the programs that will maintain and advance Scott Paper's leadership in markets for sanitary tissue and disposable products. We are grateful for the outstanding support given by our employees, our customers, our suppliers and our shareholders.

FOR THE BOARD OF DIRECTORS

George L. O'Leary,
Chairman

Cottonelle continues to grow as one of the country's most popular bathroom tissues. The new Champagne Cottonelle was introduced during 1980.


Cottonelle
Cottony Soft
Tout Doux
Cottonelle
Cottony Soft
Tout Doux
Cottonelle
handy pak
format pratique
Scotties
Scotties
handy pak
format pratique
Scotties
PETAL WHITE
LYS
handy pak
format pratique
Scotties


VIVA
SCOTT
THE HARD WORKING TOWEL
WITH THE SOFT SOFT TOUCH
VIVA

Consolidated Financial Statements, December 31, 1980

Auditors' Report

To the Shareholders of
Scott Paper Limited:

We have examined the consolidated statement of financial position of Scott Paper Limited as at December 31, 1980 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 17, 1981
Vancouver, B.C.

Price Waterhouse & Co.
Chartered Accountants

Viva Towels and Scottowels continued to be the largest selling group of paper towels in Canada during 1980.

Consolidated Statements of Income and Retained Income

	Year ended December 31 1980	1979
	(in thousands)	
Income:		
Sales, less allowances and after deducting Federal sales tax of $10,947,000 (1979 — $8,970,000)	$157,035	$140,522
Interest on short-term investments and gain on acquisition of Series A debentures	1,082	959
	158,117	141,481
Expenses (Note 7):		
Cost of products sold	107,433	98,582
Selling and distribution expenses	28,789	23,956
Research and development expenses	1,330	952
Administrative and general expenses	6,314	5,525
Debenture interest and amortization of issue costs	1,781	1,970
Bank interest	780	690
	146,427	131,675
Income before income taxes	11,690	9,806
Income Taxes:		
Current	4,740	2,772
Deferred	(480)	770
	4,260	3,542
Income for the year	$ 7,430	$ 6,264
Income per share	$2.98	$2.55
Retained Income:		
Retained income at beginning of year	$ 33,349	$ 28,674
Income for the year	7,430	6,264
	40,779	34,938
Dividends (Note 9)	2,107	1,589
Retained income at end of year	$ 38,672	$ 33,349

Consolidated Statement of Financial Position

	Year ended December 31	
	1980	1979
	(in thousands)	
Current assets:		
Cash	$ 33	$ 32
Short-term investments	7,000	5,776
Trade and other accounts receivable	11,039	11,439
Inventories (Note 2)	34,096	24,838
Prepaid expenses	362	336
	52,530	42,421
Current liabilities:		
Bank indebtedness	11,230	8,498
Accounts payable and accrued liabilities	16,478	14,906
Income taxes payable	3,157	1,983
Current portion of long-term debt (Note 4)	770	770
	31,635	26,157
Working capital	20,895	16,264
Add: **Non-current assets —**		
Fixed assets (Note 3)	51,648	52,088
Unamortized debenture discount and issue expenses	252	296
Miscellaneous assets	166	217
	52,066	52,601
Deduct: **Non-current liabilities —**		
Sinking fund debentures (Note 4)	15,296	16,336
Deferred income taxes	11,653	12,133
	26,949	28,469
Net assets	$46,012	$40,396
Shareholders' interest:		
Share capital (Note 5)	$ 7,340	$ 7,047
Retained income (Notes 4 and 6)	38,672	33,349
	$46,012	$40,396

APPROVED BY THE BOARD OF DIRECTORS:

G. L. O'Leary
Director

W. D. H. Gardiner
Director

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1980	1979
	(in thousands)	
Financial resources were provided by:		
Operations		
Income for the year	$ 7,430	$ 6,264
Items which did not involve an (inflow) outflow of working capital —		
Depreciation	5,399	4,732
Deferred income taxes	(480)	770
Amortization of debenture issue costs	44	87
Loss on disposal or retirement of fixed assets	45	85
	12,438	11,938
Decrease in miscellaneous assets	51	—
Issue of common shares	293	237
Proceeds on disposal of fixed assets	6	629
	12,788	12,804
Financial resources were used for:		
Additions to fixed assets	5,010	5,255
Dividends	2,107	1,589
Reduction of long-term debt	1,040	2,950
Increase in miscellaneous assets	—	148
	8,157	9,942
Increase in working capital during the year	4,631	2,862
Working capital at beginning of year	16,264	13,402
Working capital at end of year	$20,895	$16,264

Notes to Consolidated Financial Statements, December 31, 1980

1. Summary of significant accounting policies:
   (a) Principles of consolidation—
   The consolidated financial statements include the accounts of Scott Paper Limited and its wholly-owned subsidiaries, Omega Products Limited, Westminster Paper Company Limited and West Tree Farms Limited.
   (b) Inventories—
   Inventories of finished products and work-in-process are valued at the lower of average cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at average cost which is not in excess of replacement cost.
   (c) Depreciation and amortization—
   Fixed assets—
   Depreciation is provided on buildings, machinery and equipment on a straight-line basis over their estimated useful economic lives at rates ranging from 2½% to 20% of original cost per annum.
   Debenture discount and issue expenses—
   The amortization of debenture discount and issue expenses is provided on a basis related to the principal amount outstanding.

2. Inventories:
   Inventories consist of:

	December 31	
	1980	1979
	(in thousands)	
Finished products and work-in-process	$21,903	$14,212
Raw materials and supplies	12,193	10,626
	$34,096	$24,838

3. Fixed assets:
   Fixed assets consist of—

	December 31	
	1980	1979
	(in thousands)	
Land, at cost	$ 757	$ 712
Buildings, machinery and equipment, at cost	95,423	90,583
Less: Accumulated depreciation	44,532	39,207
Net book value of depreciable assets	50,891	51,376
	$51,648	$52,088

As part of an ongoing review program, the Company has continued to revise the estimated useful economic lives of certain fixed assets. As a consequence of these revisions, the depreciation charged to operations for the year ended December 31, 1980, is approximately $730,000 higher and net income is approximately $460,000 lower (18¢ a share) than they would have been had the original estimates been continued. In 1979 depreciation was approximately $300,000 higher and net income was approximately $190,000 lower (8¢ a share) than they would have been had the original estimates been continued.

4. Sinking fund debentures:

	December 31			
	1980			1979
	8¾% Series A	11⅝% Series B	Total	Total
	(in thousands)			
Principal amount issued	$12,000	$11,000	$23,000	$23,000
Principal amount outstanding	$ 7,376	$ 8,690	$16,066	$17,106
Less: Payments due within one year	—	770	770	770
	$ 7,376	$ 7,920	$15,296	$16,336

Sinking fund debentures, *continued:*

8¾% sinking fund debentures, Series A—

The Series A debentures were issued on July 2, 1971 with a maturity date of July 2, 1991 and require that mandatory sinking fund payments be made in each of the years 1974 to 1990 to retire $360,000 of the debentures per annum with an option to retire a further $180,000 per annum. At December 31, 1980 the Company had $1,744,000 of debentures available to meet future sinking fund requirements.

11⅝% sinking fund debentures, Series B—

The Series B debentures were issued on December 9, 1975 with a maturity date of October 31, 1990 and require that mandatory sinking fund payments be made in each of the years 1978 to 1989 to retire $770,000 of the debentures per annum.

The trust agreement contains a distribution test formula which limits the availability of retained income for payment of dividends. As at December 31, 1980 approximately $23,000,000 is available for distribution under the most restrictive tests.

Minimum sinking fund payments required for Series A and B debentures in each of the five years following December 31, 1980 is as follows—

1981	$770,000*
1982	770,000*
1983	770,000*
1984	770,000*
1985	826,000*

*Net of amounts acquired and lodged for future sinking fund requirements.

5. Share capital:

The authorized share capital of the Company consists of 6,000,000 common shares without par value of which 2,490,850 (1979 — 2,455,900) are issued and outstanding. Of the 3,509,150 unissued shares, 59,150 are reserved for options under the "Key Employee Stock Option Plan". The following options are outstanding (but not yet exercised)—

Number of shares	Option price per share	Expiry date
41,550	$ 8.00	October 23, 1981
9,750	$11.25	April 24, 1984
5,400	$13.75	September 11, 1984

During 1980 the following options were exercised—

31,700	shares purchased at $ 8.00
2,250	shares purchased at $11.25
1,000	shares purchased at $13.75
34,950	

6. Retained income:

For years up to and including 1967 the Company followed the policy of charging against income only those income taxes which were currently payable. Included in retained income is an amount of $3,902,000 which pertains to tax reductions in those years resulting primarily from the claiming of depreciation for tax purposes in excess of amounts charged to the financial statements.

7. Expenses include:

	December 31	
	1980	1979
	(in thousands)	
Depreciation	$5,399	$4,732
Remuneration of 20 directors and senior officers (1979 — 19)	$1,137	$ 982
Research and development costs paid to parent company	$ 850	$ 610

8. Pension plans:

The Company's hourly employees at the Western Manufacturing Division are members of an industry pension plan to which the Company contributes. In addition, the Company has a number of contributory pension plans, participation being available to substantially all of its other employees. Length of service and individual earnings determine the pensions and retirement benefits for all members of the Company plans. It is the Company's practice to provide for its portion of the cost of pensions and retirement benefits accrued, through charges to earnings determined by periodic actuarial computations. The most recent actuarial reports revealed that the plans were, in aggregate, fully funded.

9. Dividends paid:

The Company paid four quarterly dividends during the year amounting in total to $2,107,000. Dividends were paid at a rate of 20 cents per share for the first and second quarters and were increased to a rate of 22.5 cents per share for the third and fourth quarters.

10. Comparative figures:

Certain 1979 amounts have been reclassified to conform with the 1980 presentation.

Ten Year Review

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Sales and Earnings	(thousands of dollars except per share)									
Net sales	$157,035	140,522	116,539	103,884	99,431	84,629	73,571	56,295	48,118	42,910
Depreciation	5,399	4,732	4,661	3,831	3,869	3,286	3,008	2,394	2,031	1,780
Interest expense	2,561	2,660	2,705	2,471	2,306	2,115	1,220	1,099	1,103	879
Income before taxes	11,690	9,806	6,555	5,674	6,143	5,404	5,523	3,538	3,244	3,049
Income taxes	4,260	3,542	2,316	2,015	2,578	2,445	2,586	1,544	1,557	1,463
Income after taxes	7,430	6,264	4,239	3,659	3,565	2,959	2,937	1,994	1,687	1,586
Per Share*										
Income before taxes	$ 4.69	3.99	2.70	2.36	2.56	2.25	2.30	1.47	1.35	1.27
Income after taxes	2.98	2.55	1.75	1.52	1.49	1.23	1.22	.83	.70	.66
Cash flow-operations	4.99	4.86	4.54	3.90	3.74	3.21	3.10	2.34	1.78	1.63
Dividends paid	.85	.65	.49	.43	.40	.40	.33	.33	.32	.30
Shareholders' equity	18.47	16.45	14.63	13.42	12.33	11.25	10.41	9.52	9.03	8.64
Number of shares outstanding (thousands)	2,491	2,456	2,426	2,402	2,400	2,400	2,400	2,400	2,400	2,400
Condensed Funds Statement										
Source of funds										
—operations	$ 12,438	11,938	11,026	9,373	8,983	7,705	7,447	5,619	4,266	3,918
—long-term financing and other	350	866	296	37	38	10,892	58	429	55	11,482
	12,788	12,804	11,322	9,410	9,021	18,597	7,505	6,048	4,321	15,400
Expenditures for										
—fixed assets	5,010	5,255	7,773	9,813	7,589	7,056	7,816	5,677	3,087	3,376
—dividends	2,107	1,589	1,179	1,040	960	960	800	800	760	720
—repayment of long-term borrowing and other	1,040	3,098	1,089	1,139	195	13	763	608	—	6,100
	8,157	9,942	10,041	11,992	8,744	8,029	9,379	7,085	3,847	10,196
Net increase (decrease) in working capital	$ 4,631	2,862	1,281	(2,582)	277	10,568	(1,874)	(1,037)	474	5,204
Financial Position										
Current assets	$ 52,530	42,421	33,307	33,727	31,215	25,960	23,416	13,974	13,248	12,990
Current liabilities	31,635	26,157	19,905	21,606	16,512	11,534	19,558	8,242	6,479	6,695
Working capital	20,895	16,264	13,402	12,121	14,703	14,426	3,858	5,732	6,769	6,295
Fixed assets at net book value	51,648	52,088	52,027	49,106	43,170	39,480	35,740	31,031	28,206	27,206
Long-term debt	15,296	16,336	19,286	20,354	21,464	21,633	10,636	11,400	12,000	12,000

*Years 1971-1977 have been restated to reflect a 3 for 1 share split on December 4, 1978.

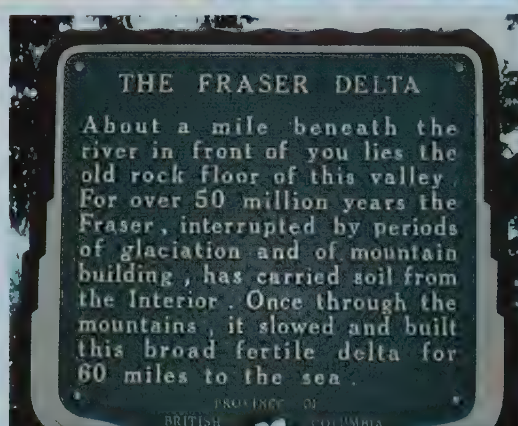
Our Cottonwood Supply

In Western Canada the Company's products are made from an economic combination of softwood kraft (chemical) pulp, which it buys from outside sources, and mechanical (groundwood) pulp which it produces at New Westminster. The latter is made from the cottonwood tree that grows in profusion in the coastal regions of British Columbia. Some of our logs come from our subsidiary company, West Tree Farms Limited, which operates a tree farm in the Fraser Valley.

The cottonwood tree is part of the poplar family and is grown by the Company on islands in the river, planted groves on the river banks and some of the nearby lower mountain slopes. The trees at West Tree Farms are hybrids from European and American stock and mature in about 20 years. When the river is low during the winter, trucks can drive to the islands and bring out the logs. During the summer high water the logs are boomed and towed 128 km to New Westminster.

Our use of the cottonwood tree for pulp is unique in the tissue industry in North America.

(Pictures clockwise): Inspecting a grove of hybrid cottonwood trees; ***Gerry Blom,*** *the Log Supply Manager and* ***Ken Stenerson,*** *the Operations Forester; inspecting cuttings from the hybrid trees.*



Officers and Executive Management

GEORGE L. O'LEARY
Chairman, President & Chief Executive Officer

JAMES C. BOYLE
Division Vice President (Industrial Marketing)

W. MICHAEL FERRIE
Division Vice President (Corporate Personnel)

BERNARD A. GOULET
Group Vice President

SERGE GUAY
Division Vice President,
General Manager, Eastern Manufacturing Division

JOHN J. HERB
Secretary

DOUGLAS HOLME
Corporate Vice President (Corporate Development)

RALPH M. KITOS
Division Vice President,
General Manager, Western Manufacturing Division

PETER J. PETERS
Group Vice President & Treasurer

JOHN F. PHILIP
Division Vice President (Ventures)

JOHN M. REID
Controller

ROBERT T. STEWART
Group Vice President

DAVID H.R. STOWE
Corporate Vice President (Consumer Marketing)

Transfer Agent and Registrar

THE CANADA TRUST COMPANY
Vancouver, Calgary, Toronto, Montreal and Halifax

Stock Listings

Vancouver, Toronto and Montreal Stock Exchanges

Wholly-Owned Subsidiary Company

West Tree Farms Limited

Joint Venture Company

50% Interest in Sancella Inc.

Board of Directors

H. CLARK BENTALL*
Chairman
Dominion Construction Co. Ltd.
Vancouver, B.C.

GILBERT C. CLARKE
Retired Businessman
London, Ontario

W. DOUGLAS H. GARDINER †
Retired Businessman
Vancouver, B.C.

BERNARD A. GOULET
Group Vice President
Vancouver, B.C.

CHESTER A. JOHNSON †
President and Chief Executive Officer
West Fraser Timber Co. Ltd.
Vancouver, B.C.

H. GORDON MACNEILL
President & Chief Executive Officer
Jannock Limited
Toronto, Ontario

GEORGE L. O'LEARY *†
Chairman, President
& Chief Executive Officer
Vancouver, B.C.

PETER J. PETERS *
Group Vice President
Vancouver, B.C.

ROBERT T. STEWART
Group Vice President
Vancouver, B.C.

JAMES D. STOCKER *
Senior Executive Vice President,
Packaged Products Division
Scott Paper Company, Philadelphia, Pa.

MARCELLIN TREMBLAY
President
Canadian Provident Group
Montreal, P.Q.

* Member of the Executive Committee
† Member of the Audit Committee

Annual Meeting

The company's Annual Meeting of Shareholders will be held at 11:00 a.m. on April 24, 1981 in the Arbutus Room of the Four Seasons Hotel, Vancouver, British Columbia.

LITHO'D IN CANADA


Lady Scott.

TO OUR SHAREHOLDERS AND EMPLOYEES

We are pleased to report increased sales and net income for the first six months of 1980, reflecting an encouraging overall performance by the company.

For this period ended June 30, 1980, net sales increased to $82,367,000 from $71,161,000 for the same period in 1979 – a gain of 15.7 per cent – and net income rose 28.2 per cent to $3,527,000, up from $2,752,000 a year ago.

The increase in sales is due to a combination of gains in sales of both consumer and industrial packaged product lines and the effects of some price increases during the period.

The increase in earnings is the result of higher sales combined with operating at near capacity in our paper mills, good productivity and lower interest expenses flowing from our program of debt reduction last year.

The company's working capital position increased by more than $3,000,000 and at the end of the period stood at more than $19,000,000.

The per share dividends paid during the six-month period were 40 cents against 30 cents during the first six months of last year. The quarterly dividend payable July 31 has been increased to 22.5 cents per share. The indicated rate for the full year 1980 is 85 cents per share versus 65 cents per share paid in 1979.

While demand for Scott products is strong, the short-term business outlook is uncertain at the present time, as the Canadian economy has definitely softened.

In view of very strong sales and earnings results for the second half of 1979, it is not expected that the rates of increase for the first six months of 1980 will continue for the full year.

For the Board of Directors

George L. O'Leary
Chairman

Vancouver, B.C.
July 14, 1980

SCOTT PAPER LIMITED
Box 3600, Vancouver, B.C. Canada V6B 3Y7

Printed in Canada

SCOTT

SCOTT PAPER LIMITED

REPORT TO THE SHAREHOLDERS For the First Six Months of 1980

SCOTT PAPER LIMITED

CONSOLIDATED STATEMENT OF INCOME

(in thousands except on a per share basis)

	First Six Months 1980	First Six Months 1979
Sales, less discounts and allowances	$82,367	$71,161
Expenses (Note 1):		
Cost of products sold	58,218	50,653
Marketing, general, administrative and development expenses	17,799	15,022
Interest and amortization of debenture issue costs	723	1,157
	76,740	66,832
Income before taxes	5,627	4,329
Provision for taxes on income	2,100	1,577
Income after taxes for the period	$ 3,527	$ 2,752
Income per share after taxes	$1.42	$1.13
Dividends paid per share	.40	.30
Number of common shares outstanding	2,482.1	2,442.4

NOTE 1 — Expenses include depreciation of $2,364 (1979 – $2,728).
Unaudited and subject to year-end adjustment.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

(in thousands)

	First Six Months 1980	First Six Months 1979
SOURCE:		
Income for the period	$ 3,527	$ 2,752
Add — Charges which did not involve an outlay of working capital:		
Depreciation (Note 1)	2,364	2,728
Deferred income taxes	200	1,120
Amortization of debenture issue costs	22	65
Net decrease of miscellaneous items	36	6
Proceeds — issued share capital	210	128
	6,359	6,799
APPLICATION:		
Net additions to fixed assets	2,045	1,092
Dividends	988	731
Purchase of Series A debentures	226	2,086
	3,259	3,909
Increase in working capital during the period	3,100	2,890
Add — Working capital at beginning of the year	16,264	13,402
Working capital at end of the period	$19,364	$16,292